

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 EB-07 L-03 SS-15 SP-02 INR-07 /045 W

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R 230700Z SEP 76

FM AMCONSUL DHAHRAN

TO SECSTATE WASHDC 5014

INFO AMEMBASSY JIDDA

C O N F I D E N T I A L DHAHRAN 1232

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E.O. 11652: GDS

TAGS: ENRG, EFIN, SA

SUBJECT: ARAMCO'S REVISED GAS GATHERING PROJECT RECOMMENDATIONS
NOW READY FOR SAG POLICYMAKERS TO REVIEW.

REF: DHAHRAN 0837, DHAHRAN 1076

1. SUMMARY: POST UNDERSTANDS THAT SAG WILL, IN EARLY OCTOBER, REVIEW

ARAMCO'S RECOMMENDATIONS ON STRETCHOUT OF

SAUDI ARABIA'S HUGE (AND EXPENSIVE) GAS GATHERING
PROJECT. A SOMEWHAT ABBREVIATED PROJECT IS RECOMMENDED --ONE SLATED
TO COST \$16 BILLION AND ONE ARAMCO JUDGES TO BE ECONOMICALLY VIABLE
AND THE FIRST-PHASE STARTUP DATE IS SHIFTED FROM 1979 TO 1980.
POLITICAL BONE OF CONTENTION, WHICH ARAMCO CONSIDERS TOO SENSITIVE
AN ISSUE TO HIT HEAD-ON ITS STUDY, IS GAS PIPELINE TO YENBO.
IMPORTANT NOTE -- INFORMATION PROVIDED IN THIS MESSAGE IS SENSITIVE
AND ANY RELEASE OUTSIDE USG COULD SERIOUSLY ENDANGER
POST'S PETROLEUM REPORTING PROGRAM. END SUMMARY.

2. SENIOR ARAMCO EXECUTIVE TOLD CONGENOFF THIS WEEK THAT THE NEXT
STEP IN THE RE-EVALUATION OF SAUDI ARABIA'S HUGE GAS GATHERING
PROJECT (SEE REFTEL) IS UP TO DR. ABDULHADY TAHER, HEAD OF STATE-
OWNED OIL COMPANY (PETROMIN). ARAMCO EXECUTIVE EXPLAINED THAT THE
REPORT OF ARAMCO'S SPECIAL GAS PROJECT REVIEW COMMITTEE HAS
BEEN PREPARED IN FINAL FORM AND WAS PASSED TO PETROMIN LAST MONTH.

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TAHER THEN REQUESTED AN ABRIDGED VERSION AND ARAMCO PROVIDED IT TWO

WEEKS AGO. TAHER IS NOW WAITING FOR NEXT MEETING OF THE SUPREME PETROLEUM COUNCIL (SPC) WHERE HE WILL BRIEF GROUP ON CONTENT OF REPORT AND RECOMMENDATIONS OF PAPER. POSSIBLY ARAMCO OFFICIALS WILL SIT IN ON MEETING AS ADVISORS. RAMADAN AND EID HOLIDAYS HAVE PREVENTED SPC FROM MEETING AND, THEREFORE, IT IS HOPED THAT SESSION WILL TAKE PLACE IN EARLY OCTOBER.

3. CRUX OF ARAMCO REPORT IS RECOMMENDATION FOR PARTIAL CUTBACK IN ORIGINAL GAS GATHERING PROGRAM AND STRETCH-OUT WHICH WILL BRING FIRST ELEMENTS ON LINE IN EARLY 1980 RATHER THAN 1979 AS ARAMCO'S ORIGINAL MARCHING ORDERS ON GAS GATHERING PROJECT CALLED FOR. PRINCIPAL ITEM TO BE CUT IS OFF-SHORE SAFANIYA PORTION OF PROJECT --AN ITEM ESTIMATED TO SAVE OVER US \$ 3 BILLION. REVISED GAS GATHERING PROJECT, AS ENVISAGED BY TEAM OF ARAMCO EXPERTS AND OTHER TECHNICAL PEOPLE DRAWN FROM ARAMCO'S FOUR OWNER COMPANIES, WOULD COST OVER US\$16 BILLION AND ASSUMES A 19 PERCENT (COMPOUNDED ANNUALLY) PRICE ESCALATION. STUDY DEMONSTRATES THAT US\$16 BILLION PROJECT CAN BE PROFITABLE BUT STATES SAFANIYA PORTION OF ORIGINAL PROJECT CANNOT BE JUSTIFIED AS ECONOMICALLY VIABLE.

4. ACCORDING TO OUR SOURCE, ONE MAJOR USE OF PAPER IS TO DEMONSTRATE THAT GAS GATHERING PROJECT, CONSTRUCTED AT SLOWER PACE, CAN PROVIDE "A RATE OF PROJECT IMPLEMENTATION THAT PERMITS ARAMCO TO ESTABLISH AND MAINTAIN EFFECTIVE MANAGEMENT AND COST CONTROL." COMPANY ATTEMPTED TO FIND MID-WAY POINT WHICH WOULD AVOID THE BONUS CONTRACTS AND WASTES OF A CRASH PROGRAM AND PREVENT THE PROJECT FROM BEING STRETCHED OUT SO FAR THAT CONTINUED PRICE ESCALATIONS WOULD MAKE PROJECT AS COSTLY AS CRASH PROGRAM. POINT WAS KEPT IN MIND, WHEN OIL COMPANY PREPARED REPORT, THAT IT MAKES LITTLE SENSE TO BUILD PROJECT AT PACE REQUIRING FULL THROTTLE WHEN IT IS HIGHLY UNLIKELY THE PLANNED INDUSTRIAL CONSUMERS AT JUBAIL ARE GOING TO BE IN PLACE BY 1980 AND READY TO RECEIVE THE FEEDSTOCK OF THE GAS COLLECTION PROJECT.

5. ARAMCO EXECUTIVE ALSO DISCUSSED "POLITICAL DECISION" THAT SAG MUST TAKE ON WHETHER TO CONSTRUCT GAS PIPELINE TO YENBO. ARAMCO DOES NOT SEE THAT COMPONENT OF THE GAS GATHERING PROJECT AS BEING CONFIDENTIAL

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ECONOMIC. IT BELIEVES IT IS CHEAPER TO MOVE GAS VIA TANKERS TO RED SEA PORT OF YENBO. FURTHERMORE, USING TANKER FLEET TO MOVE GAS WILL GIVE SAG MARKETING FLEXIBILITY THAT PIPELINE WILL NOT PERMIT. ARAMCO EXECUTIVE RUEFULLY REFERRED TO COMPANY'S OWN POOR JUDGEMENT IN BUILDING ITS TAPLINE TO LEBANON, NOW BOTH AN ECONOMIC WHITE ELEPHANT AND AN ITCHY POLITICAL BURDEN. NEVERTHELESS, MOBIL, WE UNDERSTAND, IS KEEN TO SEE YENBO PIPELINE CONSTRUCTED AND IS PRESSING SAG HARD NOT ONLY TO CONTINUE WITH ORIGINAL PROGRAM

BUT TO COMPLETE IT BEFORE JUBAIL LOADING FACILITIES WOULD BE IN FULL OPERATION.

6. COMMENT: IT WAS QUITE CLEAR FROM CONVERSATION THAT MOBIL'S INTEREST IN KEEPING YENBO PIPELINE IN GAS GATHERING PROJECT HAS CURBED MUCH OF ARAMCO'S OVERT EXPRESSIONS OF DIMINISHING ENTHUSIASM FOR THAT PART OF PROJECT, SINCE MOBIL IS ONE OF ARAMCO'S OWNER COMPANIES. NO DOUBT THE PROSPECT OF ARAMCO BECOMING A SAUDI AGENCY I N THE NOT TOO DISTANT FUTURE CURTAILS CRITICISM OF YENBO PIPELINE BY MANY ARAMCO EXECUTIVES WHO OPPOSE IT. YENBO PIPELINE ASIDE, ARAMCO FEELS GENUINELY PLEASED WITH ITS PAPER WHICH IS DESCRIBED AS AN EXPRESSION OF WHAT THE COMPANY WANTED TO SAY ALL ALONG BUT WAS NEVER ASKED TO SAY UNTIL NOW.

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM PRODUCTION, CONSTRUCTION, PROGRAMS (PROJECTS), PIPELINES
Control Number: n/a
Copy: SINGLE
Draft Date: 23 SEP 1976
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: blochd0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976DHAHRA01232
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760373-0599
From: DHAHRAN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760929/aaaaayob.tel
Line Count: 139
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: STADIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: STADIS
Reference: 76 DHAHRAN 837, 76 DHAHRAN 1076
Review Action: RELEASED, APPROVED
Review Authority: blochd0
Review Comment: n/a
Review Content Flags:
Review Date: 23 JUN 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <23 JUN 2004 by ElyME>; APPROVED <03 NOV 2004 by blochd0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ARAMCO'S REVISED GAS GATHERING PROJECT RECOMMENDATIONS NOW READY FOR SAG POLICYMAKERS TO REVIEW.
TAGS: ENRG, EFIN, SA, ARAMCO
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006